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**Director of  
Central  
Intelligence**

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# **National Intelligence Daily**

***Thursday  
1 March 1979***

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The Overnight Reports, printed on yellow paper as the final section of the *Daily*, will often contain materials that update the Situation Reports and Briefs and Comments.



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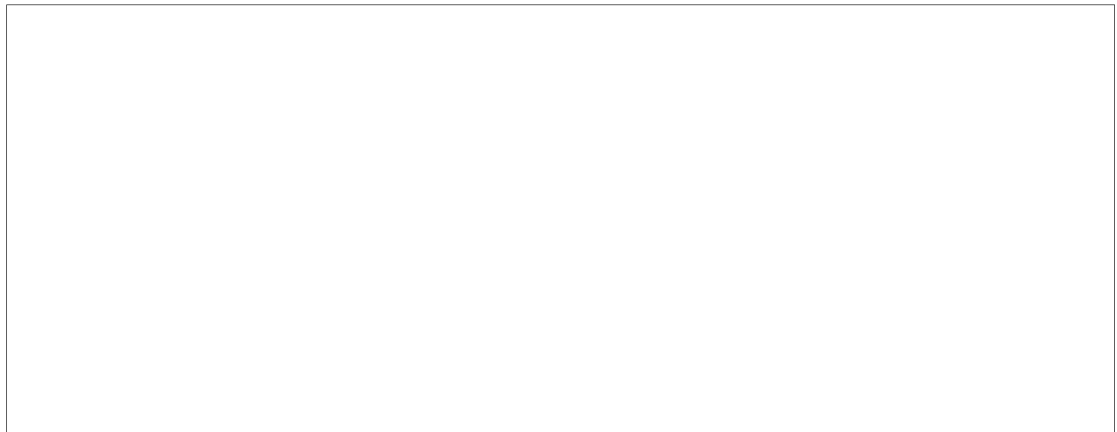


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SITUATION REPORTS

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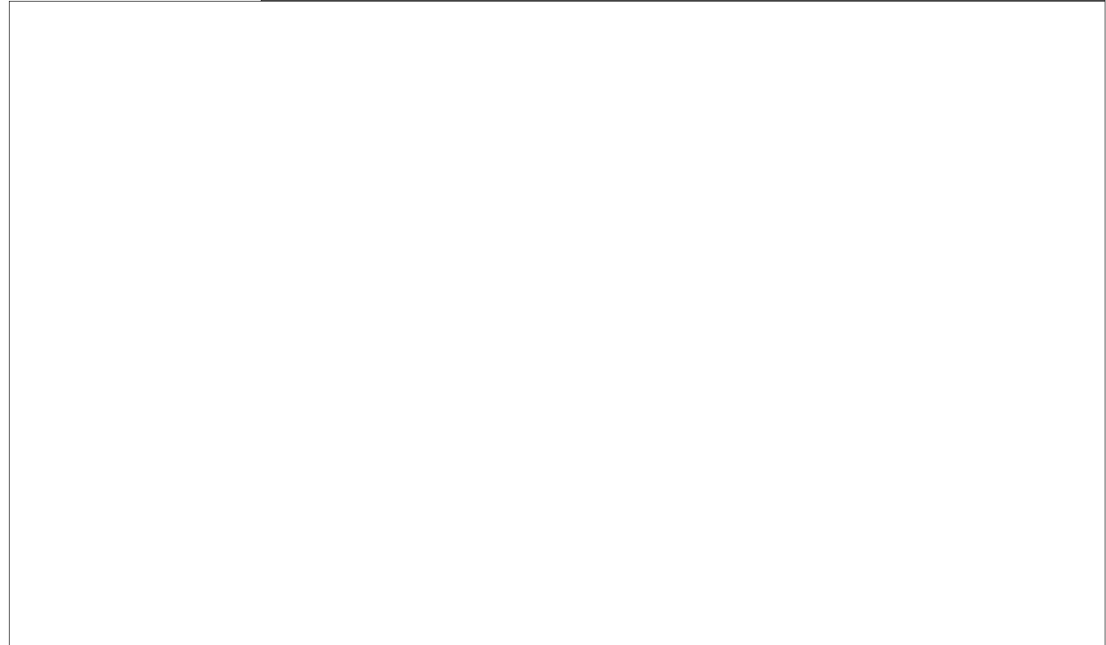
CHINA-VIETNAM-USSR



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Radio Hanoi yesterday claimed that Vietnamese troops had driven back three Chinese armored columns in heavy fighting around Lang Son, but we cannot confirm this report. We believe that Vietnamese forces there are badly outnumbered;

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Economic Disruptions in China

[redacted]

The immediate threat to the economy is a possible excess demand for transport, which could hamper industrial production. Energy supplies are particularly vulnerable, as coal and petroleum account for over 40 percent of all railroad freight tonnage. Usual peak demand for transport begins in April with good weather and the early grain harvest. [redacted]

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The war at this point is not expected to be a serious constraint on China's plans for modernization. China has formulated contingency plans, however, for evacuating the thousands of foreign technical personnel stationed there. [redacted]

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Vietnamese Comment

Vietnam yesterday categorically rejected the Chinese call for negotiation of their border differences, dismissing it as a "farce." The *Nhan Dan* article concluded with a demand for an "immediate, total and unconditional" Chinese withdrawal. Another commentary, broadcast by Hanoi in Cambodian, took a harsher tone in dismissing the Chinese offer for negotiations and pledged that Vietnam will fight until the last Chinese soldier is driven out. [redacted]

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In another commentary yesterday, the Vietnamese criticized the UN Security Council resolutions now under consideration, and in particular the ASEAN proposal (not specified by name) as part of a "careful propaganda orchestration between imperialism and the Beijing aggressors." Hanoi thanked the USSR, Czechoslovakia, Poland, Cuba, and India for their support in the UN. [redacted]

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Soviet Comment

In his Supreme Soviet election speech yesterday, party ideologue Suslov repeated many of the points made previously by his Politburo colleagues. He reaffirmed the USSR's intentions to stand by its commitments to Vietnam under the friendship treaty with Hanoi, and called for the withdrawal of Chinese troops. US or Western "connivance" with Beijing were not mentioned, but Suslov warned that "the danger to international detente. . . is growing" because the Chinese leadership has "merged" with the forces of "international reaction" and "militarism." [redacted]

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The authoritative *Pravda* article yesterday by "I. Aleksandrov" was harsher than any of the leadership statements on the subject of tacit US approval of Beijing's attack on Vietnam but nevertheless acknowledged that no Western governments--including the US--had "publicly" approved China's actions. [redacted]

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The main thrust of the Aleksandrov piece was its warning that the flames of war may ultimately engulf those now willing to place on a par "the Chinese aggressor with its victim." The article's preoccupation with rebutting China's justification for its move against Vietnam suggests Moscow was also concerned that its own version of events is not being received well abroad. [redacted]

The pseudonym Aleksandrov is indicative that Politburo-level officials approved the article, but it does not mean that a Politburo member authored the article or that the article is an official leadership statement. Rather, it may reflect underlying concerns within the leadership. The US Embassy in Moscow notes that the differences between the speeches of Politburo members and the Aleksandrov article regarding the US could reflect differences within the leadership toward an alleged US role in the Chinese attacks. President Brezhnev will make the final--and obviously most authoritative--speech on Friday. [redacted]

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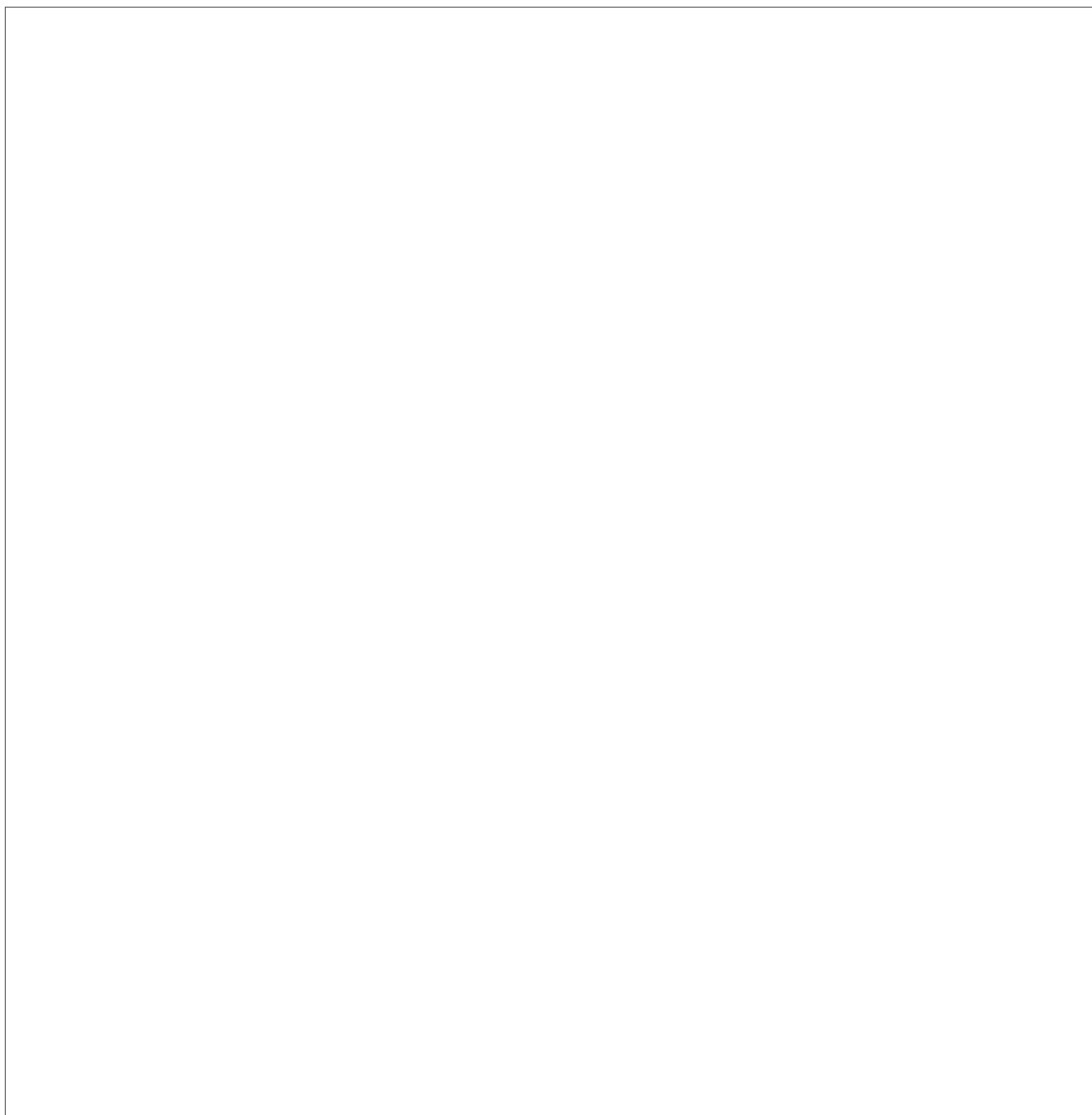
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Initial Soviet press comment on the President's press conference on Tuesday acknowledges that he has disapproved Chinese action against Vietnam, but takes him to task for calling the Chinese move a mere border crossing and cites alleged US political observers who point out that this is tantamount to indirect encouragement of the Chinese invasion.

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## IRAN

*Prime Minister Bazargan's government is attempting to revitalize three critical areas of the economy--oil, trade, and banking--where inactivity has kept the economy paralyzed for months. Increasing political splintering, however, poses a serious threat to the government's efforts.* [redacted]

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The new head of the National Iranian Oil Company--Hassan Nazih--traveled to the center of the nation's oil industry to put his imprimatur on efforts to get oil workers to resume production. Most oil company employees have returned, but a hard core of leftists remains on strike and debate continues on future oil policy. Nazih announced that exports will resume on Monday but did not indicate at what level. While his deputy at the oil company indicated that a production level of 1.5 million barrels per day is all that can be expected in the near term, Nazih has talked of plans for future production of about 3 million barrels per day. This would be just under half the prestrike level. [redacted]

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Customs employees also are returning to work, and some major ports are operating on a 24-hour-a-day schedule. The government reportedly has decided to waive storage charges for the period of customs administration inactivity and will allow import duties to be paid on an installment basis. This could help Iranian industries heavily dependent on imports secure clearance of needed goods at a time when the industries would have difficulty meeting storage or duty fees. A Western observer who visited Iranian ports earlier this month reported that they are so badly clogged that it will take three to four months to clear them. [redacted]

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Bazargan has appointed an experienced economist to head the Central Bank. Although most bank personnel have returned to their offices, many still spend most of their days in political meetings. The bank has been a center of leftist activity, and its staff has refused to allow the release of any foreign exchange payments. This has crippled the rest of the banking sector and interfered with scheduled imports. [redacted]

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The government's efforts to get the economy functioning are hindered by deepening splits within Iranian society. Young radicals, for example, clearly resent and may well resist government attempts to rely on the bureaucracy of the former government. Attempts to integrate members of the revolutionary committees with 25X1 staffs currently manning government offices may exacerbate rivalries between the two groups.

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## BRIEFS AND COMMENTS

## VIETNAM: Reaction to World Opinion

*Despite China's invasion, world public opinion has not turned in Vietnam's favor as Hanoi had hoped. The Vietnamese are now reacting by adopting a "for-us-or-against-us" attitude that may only increase Hanoi's isolation.* [redacted]

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Vietnam expected the Chinese invasion to change its image overnight from aggressor in Kampuchea to victim of aggression. Most countries, however, have attempted to remain neutral in the Chinese-Vietnamese conflict and to balance criticism of China's invasion with Vietnam's in Kampuchea. Even the Japanese Communist Party, which is sympathetic, offered only lukewarm support for a Hanoi-backed international conference to criticize China. [redacted]

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Support for Vietnam has come almost entirely from the USSR and its East European allies. India has reiterated its traditional support, even though this could set back efforts to improve relations with China. Italian Communist Party leader Berlinguer's endorsement of Hanoi last week apparently had more to do with intra-party politics than a strong commitment to Vietnam. Hanoi itself has played down Soviet support, lest it appear to be the Soviet puppet China says it is. [redacted]

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[redacted]

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Vietnam seems to be particularly upset by the US and Thai response to China's invasion. The Vietnamese media have repeatedly charged the US with acquiescence if not complicity in the Chinese attack. [redacted]

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[redacted]

[redacted] Vietnam is beginning to note openly in its press that Thailand is assisting China in resupplying the Pol Pot forces. [redacted]

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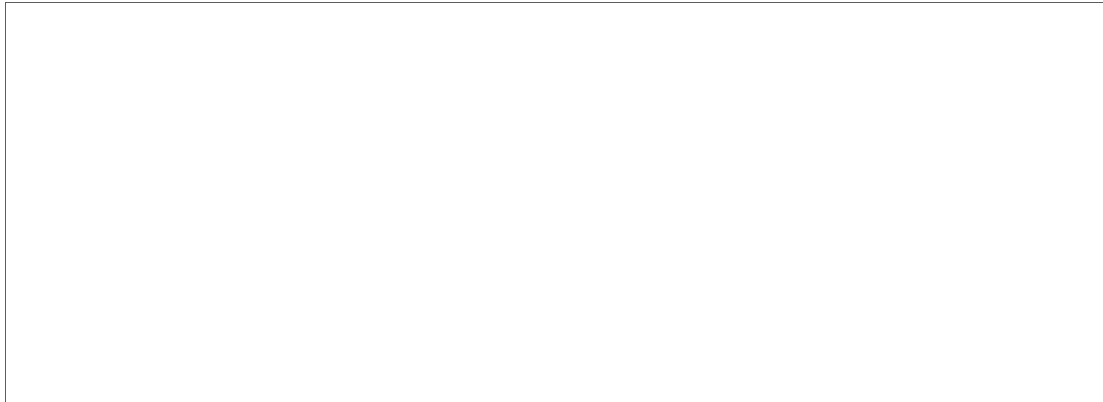
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The Vietnamese are clearly determined to see the situation through, even without widespread support. Vietnam continues to express confidence that it can meet the limited military threat China is posing and has steadfastly refused to negotiate until all Chinese forces withdraw. 

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Vietnam also remains opposed to any political solution that would link a Chinese withdrawal to a Vietnamese withdrawal from Kampuchea. Indeed, the Vietnamese media convey a sense of righteousness--often in belligerent terms--when discussing Kampuchea and Vietnam's "legitimate" role as the leader of the Indochinese people. 

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LEBANON: Saudi Withdrawal

*Saudi Arabia, unhappy with its role in Lebanon and increasingly concerned over the conflict between North and South Yemen, is withdrawing its 700-man contingent from the Syrian-dominated Arab Deterrent Force. This will increase chances of a new outbreak of heavy fighting in Lebanon between Syrian troops and the Christian militias.*

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According to Lebanese Foreign Minister Butrus, the Saudis have asked the Deterrent Force commander to send the contingent home immediately, and a Saudi airbase commander was asked to send transport aircraft to begin moving the troops yesterday. The Saudis had for some weeks actively considered withdrawing their contingent when the agreement governing the Deterrent Force expires next month. The situation in Yemen apparently prompted the Saudis to act now.

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The Saudis doubtless recognize that their withdrawal will complicate the situation in Lebanon, but they are unwilling to continue to risk their troops in a situation they believe is hopeless.

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The removal of the Saudis, who have been stationed between Christian militiamen and Syrian units in Beirut, will cause the Christians to become even more determined to end the Syrian presence. They will argue that the Deterrent Force has lost all semblance of being an impartial Arab organization and has become a Syrian occupation army. The Christians' argument will be reinforced if, as seems likely, the United Arab Emirates also withdraws its contingent--the only other non-Syrian unit in the Deterrent Force. The Sudanese contingent withdrew earlier this month.

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ALGERIA: Continued Political Maneuvering

*Algerian President Bendjedid increasingly appears to be a figurehead leader. He reportedly owes his position to a group of military officers led by Lt. Col. Mohamed Khalef, director of military security. Although the Khalef faction may currently be in the ascendancy, the inability of the regime to agree on a new cabinet indicates that none of the competing factions has consolidated its control.*

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Khalef, however, may not be able to establish himself as the new strongman, if that is his objective. He has been director of military and presidential security since 1962, a role that presumably has earned him enemies in the military. If he makes an early bid for too much power, such as taking on the defense portfolio, he probably would gain additional foes. More important in the long run, Khalef's ethnic and regional origins--he is a Berber from a traditional area of dissidence--will work against him.

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The inability of the party Politburo to hammer out policy guidelines and new cabinet assignments after more than a week of meetings points to intense political infighting.

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some other contender for power with strong Arab credentials--traditionally a prerequisite for leadership in Algeria--may again gain ground in the still fluid situation.

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JAPAN: Southeast Asian Policy

*In the wake of Vietnam's intervention in Kampuchea and China's invasion of Vietnam, Japan is trying to maintain its ties with Vietnam without jeopardizing its more important relations with the non-Communist states of Southeast Asia, which are alarmed by Hanoi's actions. Japan is also attempting to avoid openly taking sides in the Sino-Vietnamese border war.*

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Japan has decided to honor its present aid pledges to Vietnam, but it is "reviewing" its aid program for the fiscal year that begins on 1 April to register its displeasure with Hanoi. The Japanese have not taken further action for fear of upsetting the overall arrangements that underlie normalization of relations, including the Vietnamese agreement last year to assume the debts owed Japan by the former South Vietnamese Government. Japan has supported the diplomatic approach taken by non-Communist Southeast Asian states to the Vietnamese-Kampuchean conflict and has also doubled its aid to Thailand as a gesture of reassurance.

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Japan has been careful to balance its criticism of China's actions in Vietnam with criticism of Vietnam's campaign in Kampuchea and has resisted Beijing's efforts to persuade it to censure Vietnamese actions under the anti-Soviet "antihegemony" clause of the Sino-Japanese peace and friendship treaty. Tokyo is unwilling to let the Chinese invasion of Vietnam affect its economic ties with Beijing, given its current difficulties in negotiating long-term projects with China. Vietnam, however, is likely to protest strongly what it perceives as Japan's tolerant approach to China, Tokyo's far more important economic partner.

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## SPAIN: Election and Economics

*Spain's economic policies will be heavily influenced following today's legislative election by the balance between Prime Minister Adolfo Suarez' Center Democrats and the Socialists under Felipe Gonzalez. The Socialists are pushing for more expansionary policies than Suarez wants. The postelection government will shape important legislation affecting the budget, labor and tax reform, energy policy, and regional autonomy.* [redacted]

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Economic issues will be a major source of contention even if the two major parties try to arrange some type of pact to govern Spain. The highly visible success of the austerity measures in the Moncloa Pact of last year in slowing inflation and bringing the current account into surplus--at the painful cost of rising unemployment--has brought the need for further austerity into question and undermined consensus policymaking in the economic area. Labor, management, and the government could not agree on a new social pact for 1979. The government then enacted a decree limiting 1979 wage hikes, but the outlook for limiting wage hikes this year is not very favorable, and already nearly half a million workers have staged strikes. [redacted]

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If the Union of the Democratic Center is returned to power, Spain would probably continue generally on its present economic course, although it will miss some of its 1979 targets; real GNP growth would slip below the planned 4.5 percent because of overly optimistic expectations for private investment, and the current account 25X1 may register a deficit of as much as \$1 billion rather than the forecast zero balance. Also, the inflation rate is unlikely to decline to the targeted 10 percent. [redacted]

A tilt to the left at the polls, followed by higher wage settlements and more government spending, would change results considerably. Real growth targets could be reached on the strength of increased public and private consumption and public investment, but at the cost of accelerating inflation and a larger current account deficit. [redacted]

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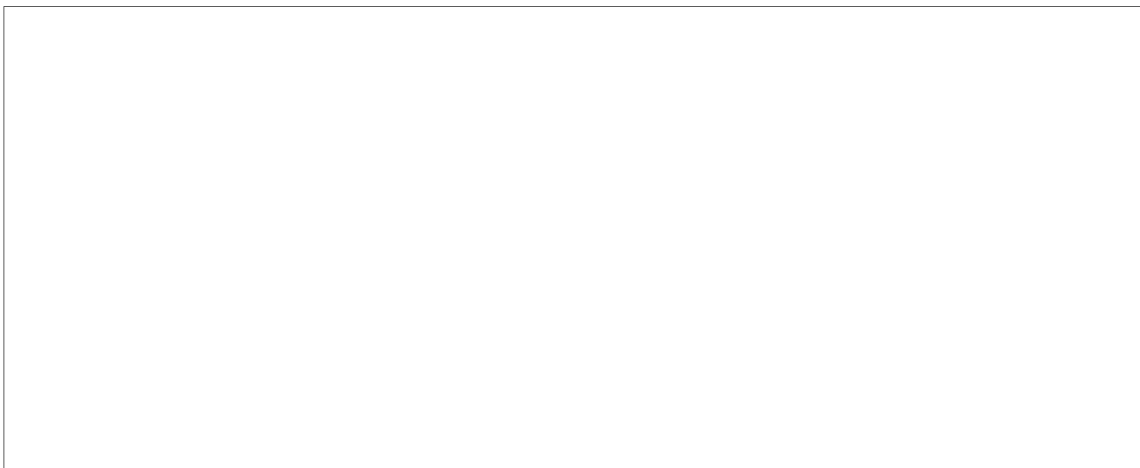
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INDONESIA: Oil Prices

Indonesia does not intend to raise oil export prices unilaterally before OPEC's next scheduled price increase on 1 April, despite recent price hikes by several other OPEC countries. The government has decided to increase prices only if OPEC agrees to do so before April. To better understand current and near-term oil market prospects, Oil Minister Wijarso is considering a trip to Japan, Western Europe, and the US early this month.

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## SPECIAL ANALYSIS

EGYPT: Armed Forces Look Abroad

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Senior Egyptian military officials may alter the structure and purpose of their armed forces following a peace treaty with Israel. Clearly worried about US resolve in countering Communist expansion in Africa and the Middle East, they want to create forces suitable for intervention in the area--primarily to counter Soviet and other Communist influence. Events in Iran may lead the Egyptians to act more forcefully in the future. Moreover, by stressing Communist influence in Africa and a readiness to combat it,

During Defense Secretary Brown's recent visit to Cairo, the Egyptians couched their requests for sophisticated weapons in terms of their anti-Communist policy.

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Senior Egyptian officials--particularly President Sadat--are concerned about Soviet and Cuban activities in Africa and the Middle East.

and it is now Egypt's duty to oppose them, for both ideological and security reasons.

with a vast array of military equipment that could be used by the Soviets or Cubans against them. Egyptian officials probably view any Communist successes in Africa and the Middle East as increasing that threat.

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Egypt is also concerned that the fighting in Ethiopia will spill over into Sudan--in which case treaty obligations and security considerations would bring Egypt to Sudan's aid.

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[redacted]  
[redacted] Egypt maintains two  
TU-16 medium bombers on a rotational basis in Sudan and  
recently decided to increase its training assistance to  
the Sudanese. [redacted]

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[redacted] the Egyptians have shifted policy  
and intend to expand their aid to Somalia. Sadat told  
a visiting US Congressional delegation in December that  
he intends to increase military aid to Somalia in gen-  
eral and will send two armored brigades--which must be  
drawn from the Suez Canal area--to defend the port of  
Berbera. This claim must be treated with caution, how-  
ever, because the deployment of two armored brigades to  
Somalia would be a sharp reversal of Egyptian policy.

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#### OVERNIGHT REPORTS

(The items in the Overnight Reports section have not been coordinated within the intelligence community. They are prepared overnight by the Office of Current Operations with analyst comment where possible from the production offices of NFAC.)

#### Saudi Arabia - Palestinians

The Saudi News Agency reported that Palestine Liberation Organization leader Yasir Arafat conferred in Riyadh yesterday with Saudi King Khalid, Crown Prince Fahd, Foreign Minister Saud, and several other cabinet ministers. Arafat is currently on a tour of Persian Gulf states. [REDACTED]

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COMMENT: *The border fighting between North and South Yemen was probably the principal topic of discussion. Arafat has in the past served as a mediator in disputes between the two Yemens.* [REDACTED]

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#### USSR-Yugoslavia

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The Yugoslav Charge in Moscow is said to have told the Dutch Ambassador on Tuesday that the long-pending meeting between Presidents Brezhnev and Tito would now take place in April or May at the earliest. The Yugoslavs would not have agreed to an earlier visit because of the current coolness of relations with Moscow. [REDACTED]

COMMENT: *With the mounting level of tension between Moscow and Belgrade, the delay of the meeting comes as no surprise; more slippage can be expected until basic differences, such as views on the Vietnam-Kampuchea-China situation, are resolved.* [REDACTED]

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Rhodesia-Mozambique

A Rhodesian military communique today announced that Rhodesian jets bombed a Mozambican Army camp also used by guerrillas of the Zimbabwe African National Union. All the aircraft returned safely; no results of the raid were announced. Western news services say the military camp is located 250 kilometers from the Rhodesian border, where the Mozambique-Malawi railroad crosses the Zambesi River. [REDACTED]

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COMMENT: *If press reports are accurate, the raid would be one of the deepest Rhodesian penetrations to date into Mozambican territory.* [REDACTED]

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Zambia

Nationalist guerrillas of Joshua Nkomo's Zimbabwe African People's Union mistakenly shot down two Zambian military aircraft on Monday and Tuesday inside Zambia, according to press reports. The airplanes were hit by ground fire from the ZAPU camps northwest of Lusaka that were bombed by the Rhodesians last Friday; the guerrillas evidently believed they were once again under attack. [REDACTED]

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COMMENT: [REDACTED]

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[REDACTED] *The incidents could seriously aggravate growing frictions between Kaunda, the Zambian military, and ZAPU forces based in Zambia.* [REDACTED]

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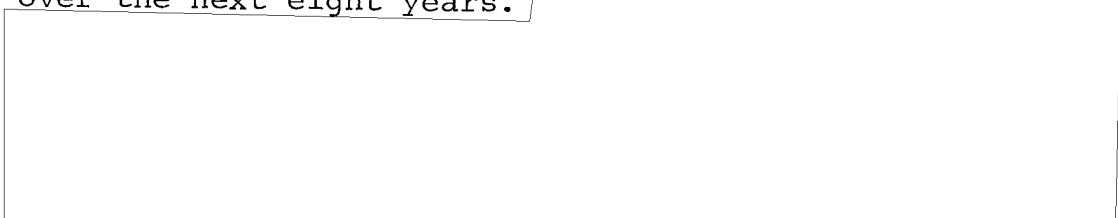
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Canada-US

Canada's National Energy Board gave the go-ahead yesterday to a 28-percent increase in natural gas exports to the US, after concluding that Canada had a surplus of about 2 trillion cubic feet of gas that could be exported over the next eight years.

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